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# Department of Health Care Policy and Financing

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## Introduction

The Department of Health Care Policy and Financing (DHCPF) was established on July 1, 1994, to administer the State's medical assistance programs. The largest of these is the Medicaid program, which reimburses providers for the cost of medical services they furnish to low-income citizens in Colorado. DHCPF is an active participant in health care reform and provides significant resources and information in developing the health care environment in Colorado. DHCPF's expenditures are funded about equally by federal funds and state general funds. Expenditures totaled approximately \$1.6 billion in Fiscal Year 1997. Approximately 95 percent of these expenditures were for Medicaid-related services.

The public accounting firm of Ernst & Young, LLP, performed the audit work at DHCPF as of and for the fiscal year ended June 30, 1997. During its audit Ernst & Young reviewed and tested DHCPF's internal controls over accounting and administrative functions and federal programs. The audit included examination of account balances and evaluation of DHCPF's compliance with state and federal rules and regulations. The auditors identified two areas in internal controls that need improvement: management of accounts receivable and oversight procedures for potential recoveries of Medicaid overpayments to individuals. The following comments and recommendations were prepared by Ernst & Young, LLP.

## Improve Management of Accounts Receivable

The Department uses an accounts receivable account to record all Medicaid-related amounts, such as amounts due from the federal government for expenditures of the Medicaid program, amounts due from health care providers for overpayments on the basis of provider billings, drug rebates due from drug manufacturers, amounts due from intergovernmental agency transactions, and smaller amounts due for items such as Medicaid administration. At fiscal year-end, this accounts receivable balance totaled approximately \$120 million. Of the total, approximately \$101 million was due from the federal government and is based largely upon the amount that DHCPF has paid to Medicaid service providers. The federal government reimburses approximately

53 percent of the State's Medicaid payments. Approximately \$19 million in additional accounts receivable was due from Medicaid providers, drug manufacturers, and Medicaid administration costs.

DHCPF has identified its reconciliation processes for accounts receivable as the primary control to ensure that account balances are accurate and that related revenues are recorded and reported properly. Problems with the reconciliation processes were noted during the audits for Fiscal Years 1995 and 1996. During the Fiscal Year 1997 audit we noted that the Department had made improvements in these processes. However, further improvement is needed in reconciliation procedures used by the Department for two significant components of its accounts receivable: amounts due from Medicaid providers and from drug manufacturers.

For amounts due from both Medicaid providers and drug manufacturers, the Department receives information from systems that are external to the State's financial system. In order to ensure the accuracy of information on the State's system, known as COFRS, the Department must reconcile information from these external sources to COFRS. In general, we found three problems with the Department's reconciliation procedures:

- The reconciliation process is incomplete. The Department focuses its efforts on reconciling monthly activity recorded on the external systems with the monthly activity recorded on COFRS. However, the Department does not ensure that the beginning and ending accounts receivable balances for the external systems are reconciled to COFRS. As a result, the Department may not be identifying all errors and making appropriate adjustments.
- Reconciliations were not always performed in a timely manner. We found that reconciliations were done from two to four months after the end of the monthly reporting periods. Timely reconciliations are needed so that accounts receivable balances are accurate for reporting, billing, and collection purposes.
- The Department relies heavily on manual processes to perform its reconciliations. This makes the reconciliations time-consuming and introduces more opportunity for errors. Some of these manual processes could be automated to improve the efficiency of the reconciliation procedures.

We did not find indications that the Department's accounts receivable contained material errors; however, we believe that timely and complete reconciliations should be prepared and reviewed so that the Department can better identify problems, provide more accurate reporting, and turn delinquent accounts over to collections sooner.

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## **Recommendation No. 2:**

The Department of Health Care Policy and Financing should improve its management of accounts receivable by ensuring reconciliations are complete and are performed in a timely manner and by further automating the reconciliation process.

### **Department of Health Care Policy and Financing Response:**

Agree. The Department will improve its management of accounts receivable by doing the following activities, which will be completed by November 1998:

1. Strive to eliminate any manual processes that require duplicate effort.
  2. Reconcile provider accounts on COFRS directly to Blue Cross/ Blue Shield balances.
  3. Identify which receivables currently can be reconciled and ensure that these are completed monthly. The supervisor will review and sign off.
  4. For those receivables where a system problem exists, the Office of Accounting & Purchasing will continue to work with the Office of Information Technology to develop the automation process for these receivables.
  5. For the Drug Rebate receivable, the Office of Accounting & Purchasing will work with the Provider Rate Section to finish this system. This will create an automatic feed to COFRS and track the outstanding Drug Rebate receivables.
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## **Increase Departmental Oversight for Recoveries of Medicaid Overpayments**

The State's counties, through the assistance of the Department of Human Services, determine the eligibility of individuals to receive services paid by the Medicaid program. Eligibility for Medicaid is determined based on various factors, including the individual's income. If a person's income increases, he or she may later be determined ineligible for the Medicaid program. In these cases, the Department of Health Care Policy and Financing's fiscal agent determines whether any Medicaid payments were made for the recipient after eligibility was lost. The fiscal agent issues a report that notifies the counties of these Medicaid overpayments, and the counties are responsible for pursuing possible recoveries of the overpaid amounts from the appropriate individuals.

As of June 30, 1997, the fiscal agent's report identified approximately \$2.6 million in potential Medicaid recoveries. We noted several limitations with the report. For example, the report lists Medicaid overpayments dating back to 1992. However, it does not provide systematic aging information so that counties can easily identify more recent overpayments. This would be helpful information to the counties because these overpayments may be the most useful area in which to concentrate collection efforts. Another limitation with the report is that it appears to include amounts that should be written off. Department staff indicate that in some cases, although the counties determine the overpayments are uncollectible, this information is not always communicated to the fiscal agent so that the accounts can be deleted from the report. Lack of systematic aging information and inclusion of obsolete accounts decrease the usefulness of this report to the counties in their collection efforts.

While some of these potential recoveries may not be collectible because of the lack of resources of the population involved, the Department should improve its oversight in this area to ensure that appropriate and helpful information is provided to the counties to aid collection efforts. Since the State funds approximately 47 percent of Medicaid costs, collection of these potential recoveries can represent income to the State's General Fund.

Improved reporting would also enable DHCPF to more clearly track the potential recoveries that have been identified and recovered, and those that are still pending. This would help the Department to provide feedback to the Department of Human Services and the counties on how they are doing with their collection of Medicaid recoveries and areas for possible improvements. Efforts to collect the outstanding amounts need to begin soon after the overpayments are identified, since the ability to collect the amounts can decrease over time as individuals become harder to locate.

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### **Recommendation No. 3:**

The Department of Health Care Policy and Financing should improve its oversight of the collection of Medicaid overpayments by improving the tracking, reporting, and analysis of identified overpayments and using this information to aid county collection efforts.

#### **Department of Health Care Policy and Financing Response:**

Agree. The Department accepts the recommendation and will modify its reporting to the counties to include systematic aging information and will work with the counties to update the information on a more current basis. We disagree with the amount identified as a potential Medicaid recovery in the report, because this \$2.6 million is the total dollar amount of requests from various counties for information related to potential recoveries. We will seek to clarify the correct amount of potential recoveries with the fiscal agent and county personnel.

The Department will initiate an improved tracking mechanism to provide feedback through the Department of Human Services (DHS) to the counties to better assist them in their collection, tracking, and reporting efforts. Finally, the Department will work with the DHS to encourage the counties to engage in early and intense collection efforts when amounts are ripe for recovery.

Full implementation of this recommendation will depend on the completion of the Colorado Benefits Management System (CBMS). Currently, the scheduled implementation date for the CBMS system is August 2000.

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